AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

ASSEMBLYMEMBER SUSAN BONILLA, CHAIR

WEDNESDAY, MAY 22, 2013

9 A.M. - STATE CAPITOL ROOM 444

VOTE-ONLY

6120 CALIFORNIA STATE LIBRARY

VOTE-ONLY ISSUE 1: MAY REVISE PROPOSALS

The Governor's May Revise proposes three funding adjustments.

1. An increase of $1.6 million General Fund, including $1.5 million in one-time funds and $104,000 ongoing due largely to delays in the renovation of the Library and Courts Building. The delays require extending the lease on warehouse space. The ongoing funding will allow for increased bandwidth needed to accommodate networks demands. The request includes provisional language describing these changes.

2. A decrease of $35,000 to align with revised estimates of revenues available from the California State Law Library Special Account due to fewer court transactions that generate revenue for this account.

3. A reappropriation of up to $2 million General Fund to support costs associated with relocating staff to the new Library and Courts Building. The 2012 Budget Act contained relocation funds, but delays in the building mean some the funds will not be expended until 2013-14.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve the May Revise requests

VOTE ONLY ISSUE 2: CORPORATION FOR EDUCATION NETWORKS INITIATIVES IN CALIFORNIA (CENIC)

The Subcommittee may appropriate $5 million to provide funding to allow public libraries to connect to a statewide broadband Internet network, and increase support for the California State Literacy Program.

BACKGROUND

This issue was first discussed at the April 24, 2013 Subcommittee hearing. CENIC, the Corporation for Education Networks Initiatives in California, is a non-profit corporation that provides a high-bandwidth, high-capacity Internet network for K-12 schools, community colleges, the UC and CSU systems, and private universities. The system allows these institutions to leverage their resources to provide a cost-effective network.

The California Library Association is proposing that the California State Library become a sixth member of CENIC, which would allow every public library in the state to connect to the CENIC system. The Association notes that Internet services at public libraries vary wildly throughout the state, and that joining CENIC would allow equal services at all libraries.

The Association is requesting $2.5 million in General Fund to help the State Library join CENIC. It states that it will seek another $2 million in grants to meet the $4.5 million fee which each segment must pay to join CENIC. In addition, the Association is seeking another $2 million in General Fund to provide grants to libraries in need of updating their technology to connect to the CENIC network.

Finally, the Association is seeking $750,000 General Fund to restore recent cuts to adult literacy programs. The programs currently serve about 20,000 California residents annually, but large waiting lists exist across the state.

Thus, the Association is seeking a total of $5 million General Fund for these programs.

STAFF COMMENTS

Funding for libraries has been dramatically reduced during the past decade. State funding for literacy programs, the Public Library Foundation and the California Library Services Act was $85 million in 2000; it was down to $4.7 million in 2012-13. Reductions in state funding lead to less federal funding, and this increase in funding will support the state's maintenance of effort requirements.

Staff Recommendation: Appropriate $5 million General Fund to the State Library to support the CENIC project and adult literacy program

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

VOTE-ONLY ISSUE 3: REDUCE GENERAL OBLIGATION BOND DEBT SERVICE PAYMENTS

The Governor's May Revise proposes removing General Obligation Bond Debt Service for both the University of California and California State University to reflect the Subcommittee's action at its April 24, 2013 hearing. Debt service costs will be returned to the statewide debt service budget items. The adjustments are:

1. For UC, Item 6440-001-0001 is decreased by $1.4 million.

2. For CSU, Item 6610-001-0001 is decreased by $1.3 million.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve the May Revise request

6870 CALIFORNIA COMMUNITY COLLEGES

VOTE-ONLY ISSUE 4: ECONOMIC AND WORKFORCE DEVELOPMENT PROGRAM EXPENDITURE PLAN AND BUDGET BILL LANGUAGE

The Governor's budget included $22.9 million in Economic and Workforce Development (EWD) program funds, and the May Revise includes budget bill language providing conditions for expenditure of the funds. The newly proposed language would authorize program expenditures based on 2012 legislation.

BACKGROUND

The EWD Program was codified in statute in 1991. This action formalized earlier efforts, dating from 1986, to coordinate statewide technical training and programs for small business and economic development. In 1996, economic development became part of the statutory mission of the CCC. EWD funds are issued through a competitive grant process. Some grants support a rapid response to industry needs, whereas others build longer-term capacity in the field to work with employers. The impact of the EWD funding in 2011-12 included: 929 people received jobs; 9,475 jobs retained; 2,388 businesses served; 7,409 industry certifications; 710 internships; and 77 apprenticeships.

SB 1402 (Lieu, Chapter 361, Statutes of 2012) reauthorized the EWD program, for the period beginning January 1, 2013, through to January 1, 2018, and otherwise recast and revised the program. The revised program is intended to improve the functions of the EWD program in three primary ways: (1) making the program more nimble and better able to respond to changing economic conditions; (2) making the program more accountable for investments and performance by strengthening the evaluation framework for EWD grants and programs; and (3) encouraging better integration and communication of EWD programs with Career Technical Education (CTE) programs.

STAFF COMMENTS/QUESTIONS

The EWD program is a well-regarded program and the revisions contained in Chapter 361 serve to further improve the program. Due to the timing and effective date of Chapter 361, it was not possible for the January budget to contain revised budget bill language providing for aligned EWD expenditures. The new language reflects the intent of the legislation and requires the Chancellor to develop an expenditure plan that includes: a statewide and regional delivery system; targeting of investments to competitive and emergent sectors important to regional economies as well as use of short-term grants to meet employer-driven training needs; program support to increase the impact of college CTE programs on regional economies; statewide accountability data collection and performance evaluation; statewide training, development, and coordination; labor market research; and continuous program improvements.

Staff Recommendation: Approve the Expenditure and Budget Bill Language

VOTE-ONLY ISSUE 5: ELIMINATION OF THE COMMUNITY COLLEGE FUND FOR INSTRUCTIONAL IMPROVEMENT

The Governor's budget proposes trailer bill language to repeal the Community College Fund for Instructional Improvement and sweep the remaining fund balance of $863,000 to the General Fund.

BACKGROUND

The Fund for Instructional Improvement (FII) was established in 1977 to support alternative educational programs and services within the community colleges, including, among others, programs addressing special learning needs of educationally disadvantaged students, bringing visiting scholars to local districts, and instruction involving internships and experiential learning opportunities. It consists of a revolving loan program and a competitive grant program. Since its creation, the FII has made available a total of $31.6 million in grants and loans to carry out the purposes of the original legislation. In 2004, due to the state budget constraints, the grant category was zeroed out; no state funding has been provided since.

The Chancellor’s Office reports that the FII has not been used in recent years due to the lack of availability of grant funds. Historically speaking, the grant and loan funds were used together. Loan funds were used to purchase equipment in conjunction with grant projects due to a Title 5 prohibition on the use of grant funds to purchase equipment. Without any grant funds available since 2004, the combination of grant/loan applications vanished.

STAFF COMMENTS/QUESTIONS

The FII appears to have served its purpose during its operation; however, it has effectively been suspended since 2004. In the ensuing years, other ways to improve community college outcomes have evolved. For instance, there is the work of the Student Success Task Force to improve student outcomes, which resulted in 22 specific recommendations. Additionally, the Legislature has enacted several pieces of legislation specifying a number of priorities to fund once new resources become available, such as a common assessment instrument for incoming students, additional academic counselors to help students identify and make progress toward their educational goals, and a system for electronic student transcripts to improve campus record keeping and efficiencies. As such, staff finds no compelling reason to continue the FFI.

The repeal of this program was approved by Senate Budget Subcommittee No. 1 at its April 11, 2013 hearing.

Staff Recommendation: Approve the Trailer Bill Language

VOTE-ONLY ISSUE 6: CAPITAL OUTLAY REAPPROPRIATIONS

A Spring Finance Letter requests authority to reappropriate previously-approved funding for three capital outlay projects that have been delayed. Below is a description of the project, the request, and the college:

- Los Angeles Community College District, Los Angeles Mission College, Media Arts Center. This project built facilities for the Media Arts program, and the request seeks to reappropriate funding for the equipment phase. This phase will cost $383,000 from the 2006 California Community College Capital Outlay Bond Fund. The project schedule has been adjusted due to delays caused by the general contractor, legal issues, and a defective structural beam connection that has been corrected. The district anticipates requesting release of the equipment funds by March 2014.

- Barstow Community College District, Barstow College, Wellness Center. The project is to construct a new, 20,309-square-foot Wellness Center, and the request seeks to reappropriate funding for the construction and equipment phases. These phases will cost $9.7 million from the 2006 California Community College Capital Outlay Bond Fund. The project is nine months behind schedule due to delays by the general contractor. The district may request release of these funds by June 30, 2013, but is seeking appropriation authority in the 2013-14 year in case of further delay.

- Barstow Community College District, Barstow College, Performing Arts Center. The project is to construct a new 28,932-square-foot theater arts building, and the request seeks to reappropriate funding for the construction and equipment phases. These phases will cost $20.2 million from the 2006 California Community College Capital Outlay Bond Fund. Delays caused by the general contractor resulted in the district terminating the contract, and the contractor's bonding company is now responsible for project completion. The reapproporiation perserves the district's option to rebid the remaining work.

STAFF COMMENTS/QUESTIONS

Staff has no concerns with this proposal.

Staff Recommendation: Approve the Spring Finance Letter

VOTE-ONLY ISSUE 7: DESERT COMMUNITY COLLEGE DISTRICT REPORTING LANGUAGE

The May Revise includes proposed provisional language intended to allow the administration to stay informed on the progress that the Chancellor's Office is making in recouping funds owed to the state from the Desert Community College District. The language is:

The Chancellor of the California Community Colleges shall report annually no later than September 30 to the Department of Finance and the Legislature on the status of recouping funds owed to the state from the Desert Community College.

STAFF COMMENTS/QUESTIONS

Staff recommends approving the language, but adding that the report should also be submitted to the Legislature: The Chancellor of the California Community Colleges shall report annually no later than September 30 to the Department of Finance and the Legislature on the status of recouping funds owed to the state from the Desert Community College.

Staff Recommendation: Approve the May Revise reporting language but adding that the annual report should be submitted to the Legislature

VOTE-ONLY ISSUE 8: COMMUNITY COLLEGES MANDATES BLOCK GRANT DATES

The May Revise includes proposed trailer bill language to change the date by which community college districts are required to submit letters to participate in the mandates block grant from September 30 to August 30. The language also would change the date the Chancellor's Office is required to submit a report about block grant participation to November 1 of the fiscal year in which funding is apportioned, instead of September 9 of the following year.

Staff Recommendation: Approve the May Revise proposal changing mandates block grants dates

VOTE-ONLY ISSUE 9: CALWORKS STUDENTS ENROLLMENT PRIORITIES

At its April 10, 2013 hearing, the Subcommittee discussed the issue of granting enrollment priority status to CalWORKS recipients who are attending community college. The Subcommittee may consider adopting trailer bill language that would enact this change.

BACKGROUND

The 2012 Budget Act made significant changes to the state's CalWORKs program, which is the state's version of the federal Temporary Assistance for Needy Families (TANF) program and provides cash assistance and welfare-to-work services to eligible low-income families with children. Previously, CalWORKs provided supportive services for up to 48 months to beneficiaries that include childcare, transportation, educational activities, and mental health, substance abuse and domestic violence counseling. Within this supportive services window, CalWORKS clients can be supported in the program in their attendance at community colleges.

The 2012 Budget Act cut the amount of time for these support services in half: recipients now have only 24 months of these fuller support services and educational activities. This raises the question of whether CalWORKs recipients who have only a short time on aid should be given enrollment priority status at community colleges.

Between Fall 2008 and Fall 2011, community colleges cut 13.8 percent of classes statewide. More than 30 colleges cut over 20 percent of classes. These reductions have made it more difficult for students to enroll in specific classes they need to achieve an associate's degree, vocational certificate or to transfer to the UC or CSU system. Many students have to wait to get into limited classes.

For CalWORKs recipients on this new benefits clock, waiting for classes may mean they will lose benefits before attaining their educational goals. Thus, students seeking to improve their educational status, which could ultimately reduce their need for CalWORKs support, may miss their opportunity at completing their community college coursework.

According to date provided by the Chancellor's Office, there were 28,747 CalWORKs students enrolled in community colleges across the state in 2010-11, or about 1 percent of the overall student body.

STAFF COMMENTS

Because CalWORKS recipients are now on a shortened benefits clock due to budget actions, it is appropriate to consider allowing priority enrollment status to these students via budget Trailer Bill Language. Veterans and foster youth already have a statutory right to sign up for classes' days or weeks before other students.

Because CalWORKS recipients comprise such a small percentage of the student body, it does not appear that this priority status would be a major disruption on campuses. The Subcommittee could consider adopting the following language:

SECTION 1. Section 66025.10 is added to the Education Code, to read:

66025.10. (a) Each community college district shall grant priority in that system for registration for enrollment to any student receiving CalWORKs.

(b) These changes are necessary to ensure that the flexibilities with respect to educational opportunities adopted as part of the broader changes to the CalWORKs program in the Budget Act of 2012 in Chapter 47, Statutes of 2012, are not undermined by students receiving CalWORKs being unable to access necessary classes.

(c) For purposes of this section, “CalWORKs recipient” means an aided person who is receiving benefits pursuant to Chapter 2 (commencing with Section 11200) of the Welfare and Institutions Code.

Staff Recommendation: Approve trailer bill language granting enrollment priority status to CalWORKS recipients in community college system

6980 CALIFORNIA STUDENT AID COMMISSION

VOTE-ONLY ISSUE 10: CAL GRANT PROGRAM ADJUSTMENTS

The Governor's May Revise proposes funding adjustments based on Cal Grant program caseload, loan assumption program caseload, and funding available through the Student Loan Operating Fund. The proposals are:

1. In the budget year, Schedule (1) of Item 6980-101-0001 be decreased by $42 million General Fund to reflect revised Cal Grant caseload estimates. The May Revise estimates Cal Grant program costs increasing by $119.1 million from 2012-13 to 2013-14.

2. In the budget year, Schedule (1) of Item 6980-101-001 be decreased by $3.3 million General Fund to reflect revised caseload estimates for loan assumption programs. The May Revise estimates loan assumption program costs decreasing by $8.5 million from 2012-13 to 2013-14.

3. In the budget year, Schedule (3) of Item 6980-101-0001 be decreased by $38.1 million and Item 6980-101-0784 be increased by $38.1 million to reflect the availability of Student Loan Operating Fund (SLOF) to offset Cal Grant program General Fund costs. SLOF will cover $98.1 million in Cal Grant General Fund costs in 2013-14.

4. In the current year, Schedule (1) of Item 6980-601-0001 be decreased by $23.6 million to reflect revised Cal Grant caseload estimates.

5. In the current year, Schedule (1) of Item 6980-601-001 be decreased by $4 million to reflect revised caseload estimates for loan assumption programs.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve the May Revise Cal Grant program adjustments

VOTE-ONLY ISSUE 11: CAL GRANT PROGRAM TANF ADJUSTMENT

The Governor's May Revise proposes an adjustment in the amount of Temporary Assistance for Needy Families (TANF) funding used in a swap with General Fund to support the Cal Grant Program.

BACKGROUND

The proposal requests that Schedule (2) of Item 6980-101-0001 be increased by $18.7 million and Item 6980-601-0001 be decreased by the same amount to reflect a decrease in the amount of TANF reimbursements budgeted to offset Cal Grant General Fund costs. Provisional language also would be revised to reflect this change.

Using TANF funds in the Cal Grant Program was discussed at the March 13, 2013 Subcommittee hearing and this topic also has been discussed in Assembly Budget Subcommittee No. 1. Swapping TANF and General Fund between the CalWORKS and Cal Grant program was first done in the 2012 Budget Act, and the administration has proposed a similar swap for 2013-14. With this proposed change, $924.2 million in TANF would be used for Cal Grants, while the same amount of General Fund would be used for CalWORKS.

STAFF COMMENTS

According to the Administration, the use of TANF funds in the Cal Grant program falls within federal rules for TANF funds that allow funding to go to low-income, unmarried students age 25 or younger for programs that could prevent and reduce out-of-wedlock pregnancies. The swap did not impact the Cal Grant Program other than making a major change to its funding source.

However, the swap last year enabled a cut of $470 million in General Fund from the CalWORKs program that dramatically shortened the amount of time a Cal Works recipient may remain eligible for supportive, educational and employment services such as child care from 48 months to 24 months. There is continued concern that the use of General Fund in the CalWORKS programs could eventually lead to more reductions to CalWORKS.

The Subcommittee could consider approving this minor adjustment, but deferring to Subcommittee No. 1 on the larger policy issue of whether it is appropriate to swap TANF and General Fund in these two programs.

Staff Recommendation: Approve the May Revise TANF adjustment but defer to the policy question regarding TANF and General Fund in the Cal Grant and CalWORKS programs to Assembly Subcommittee No. 1.

VOTE-ONLY ISSUE 12: CAL GRANT BUDGET BILL AND TRAILER BILL LANGUAGE

The Subcommittee can consider shifting descriptions of the individual amounts of Cal Grant A, B and C awards from the Budget Bill to trailer bill and amending Education Code sections that direct future Legislatures to set Cal Grant award amounts.

BACKGROUND

Education Code Sections 69432, 69435(b), 69439(a), and 69640(a) all describe Cal Grant award programs and include language that note that the maximum awards for these grants shall be included in the annual Budget Act. For example, Education Code Section 69432(b) states that, "Maximum award amounts for students at independent institutions and Cal Grant C and T awards shall be identified in the annual Budget Act. Maximum award amounts for Cal Grant A and B awards for students attending public institutions shall be referenced in the annual Budget Act."

This has led to historic practice of describing individual award amounts in the budget bill. In the 2012 Budget Act, the Governor used his veto authority to reduce the individual award amounts by 5 percent for all Cal Grant awards except the A award for public institutions, which is tied directly to tuition costs.

STAFF COMMENTS

Based on conversation with Legislative Counsel, staff believes it is improper for statute to direct a future Legislature to set Cal Grant award amounts. Thus, the Subcommittee could consider moving Cal Grant award amounts from the budget bill to trailer bill, and in doing so, also delete references in the Education Code that require future Legislatures to set Cal Grant award amounts. The budget bill would retain the overall Cal Grant Program amounts in Item 6980-101-0001, but not include provisional language describing the maximum award amounts. Those amounts would be described in trailer bill language and would replace Education Code references that direct future Legislatures to set the amounts in the Budget Act.

Staff Recommendation: Delete maximum Cal Grant award amounts listed in provisional language in Item 6980-101-0001 and create trailer bill language describing those amounts that will amend Education Code Sections 69432, 69435(b), 69439(a), and 69640(a).

ISSUE 13: REESTABLISH SUPPORT SERVICES

The Subcommittee may consider a May Revise proposal to increase $610,000 General Fund and create seven positions to reestablish printing and mailroom services and information technology support for the Commission.

BACKGROUND

An ongoing contract with the Education Credit Management Corporation (ECMC) to service California's guaranteed student loan program is set to expire on June 30, 2013. With the ending of this contract, CSAC will be required to assume several administrative duties. The commission already has reestablished mail and courier services concurrent with its move in April, and the remaining services will transition to CSAC on July 1.

May Revise Proposal. The Governor's May Revision provides $610,050 and 7 positions to reestablish business operations and technology services following termination of the contract with ECMC. The administration based funding amounts on recent ECMC expenditures for these services, and reduced the amount for each position (but not the standard complement of general expense) by 25 percent to reflect a gradual ramp-up to full staffing in the budget year. The administration did not include production of outreach materials ($360,000) and support for high school counselor training ($14,000) in its proposal. It did however, include funds for warehouse storage and shipping of outreach materials.

The administration also included budget bill language requiring Department of Finance approval before CSAC may expend funds.

STAFF COMMENTS

The LAO recommends the Legislature approve the May Revision proposal with two modifications: 1) reduce budgeted salary savings; and 2) provide funding for outreach materials. The LAO notes the proposal to reestablish services at CSAC is justified, and because ECMC has kept track of staff time and costs related to providing these services, the administration has a solid basis for its cost estimates.

The LAO states, however, that although it is prudent to assume some level of vacancy savings, the administration's 25 percent reduction is excessive. To minimize down time, the commission will need to have personnel in place to transition many of these services on July 1. Commission staff has indicated that it plans to begin recruitment and interviews in June and have personnel ready to report to work on July 1 if the proposal is approved. The LAO recommends a smaller salary savings factor of 5 percent, but staff sees no reason to hinder the Commission from hiring all seven positions as early as July 1. This would add $130,000 to the Governor's proposal.

With regard to publications, the LAO notes that the commission has been producing informational materials in partnership with ECMC for distribution to nearly every high school throughout the state. The primary informational resource is a package consisting of a brochure, a comprehensive student financial aid workbook, and an online high school counselor's guide, all published under the title Fund Your Future. Additionally, CSAC has produced printed information about the California Dream Act to help familiarize students, parents, and counselors with this new program. Although CSAC is active in providing information through social media and online materials, the Fund Your Future package (published in both English and Spanish) and Dream Act materials (published in eight languages) remain important print resources for financial aid awareness and education. The LAO recommends the Legislature add $360,000 to Item 6980-001-0001 for CSAC to continue publishing Fund Your Future and Dream Act materials.

Finally, staff sees no reason for the unusual budget bill language requiring Department of Finance approval before CSAC expends the funds for these positions. By submitting the BCP as part of the May Revise, the department appears to have agreed that these positions are needed and no further approval is required.

Staff Recommendation: Approve seven positions at full-year funding to provide support services. Approve funding of outreach materials. Reject the budget bill language

ISSUE 14: CALL CENTER POSITIONS

The Subcommittee can consider a Commission request seeking $386,000 General Fund and seven positions to support its call center for students, parents, teachers and other stakeholders. This request was not included in the May Revise.

BACKGROUND

The commission submitted a request for $386,000 from the General Fund to support its call center for students, parents, teachers, and other stakeholders. Specifically, CSAC requested seven additional customer service positions to help answer phone calls and e-mail requests.

Commission staff reports that the agency is unable to complete the required workload with existing resources. Recent data shows that over 12,000 callers, comprising more than 15 percent of calls, gave up before reaching a call center representative in 2012. (This is an improvement over the previous year, when more than 20 percent of callers abandoned their attempt to reach a representative.) Call volume has been higher in 2013, due in part to implementation of the Dream Act.

STAFF COMMENTS

The LAO states that before making a decision about permanent call center staffing, the Legislature may wish to monitor customer service volume at CSAC to determine the best course of action. Call volume may be seasonal, may spike with implementation of new programs, or may fluctuate for other reasons. It is not currently evident whether permanent, year-round positions or other alternatives would more appropriately address the customer service workload. The LAO recommends that the Legislature direct CSAC to report by January 1 of next year on the monthly volume of phone calls, e-mails, and any other modes of communication employed.

Staff notes that the Commission does have evidence that more positions are needed to provide students, their families and institutions with financial aid questions. The Subcommittee could consider approving these positions as three-year, limited-term positions, which would allow the Legislature to review these positions again to determine if permanent positions are necessary.

Staff Recommendation: Approve the seven positions on a three-year, limited-term basis

ISSUE 15: FEDERAL SEQUESTER IMPLEMENTATION

The Subcommittee may consider a May Revise proposal to change budget bill language seeking to clarify that the sequester of federal College Access Challenge Grant funds does not reduce the amount of federal funds available to offset General Fund loan assumption costs.

BACKGROUND

Currently the federal College Access Challenge Grant provides support for three programs: 1) the Cash for College outreach program, 2) the Cal-SOAP regional consortia, and 3) the Assumption Program of Loans for Education (APLE). Federal funds provided to APLE serve as a direct offset to General Fund (GF) obligations for this program.

The commission wishes to allocate the sequester reduction to the APLE program and keep the outreach programs whole. The administration, by contrast, wants to protect the General Fund offset and allocate the reduction to outreach programs. Accordingly, the administration proposed budget bill language requiring that at least $7.2 million (the current funding level) be used to offset General Fund costs in the APLE program, and up to $328,000 and 7.2 million (the current funding levels) be available for Cash for College and Cal-SOAP, respectively.

STAFF COMMENTS

While the LAO recommends approving the language, Commission staff maintains that CSAC would still need the flexibility to move remaining federal funds (after the offset) between the two outreach programs. They contend that the "up to" language could prevent them from doing so.

CSAC proposes the following language instead:

1. Of the funds appropriated in this item, $328,000 is available for the Cash for College Program. This amount reflects funds anticipated from the College Access Challenge Grant Program for the 2013-14 and 2014-15 federal fiscal years.
2. Of the funds appropriated in this item, $7,221,000 is available for California Student Opportunity and Access Program (Cal-SOAP), established under Article 4 (commencing with Section 69560) of Chapter 2 of Part 42 of Division 5 of Title 3 of the .Education Code, and shall be for contract agreements and shall be available to provide financial aid awareness and outreach to students who are preparing to enter, or are currently enrolled in, college. Of this amount, $1,000,000 is dedicated for career technical education and the resulting career opportunities. The Student Aid Commission shall consult with the State Department of Education and the Office of the Chancellor of the California Community Colleges in determining the projects and activities for these funds. This amount reflects funds anticipated from the College Access Challenge Grant Program for the 2013-14 and 2014-15 federal fiscal years.
3. Of the funds appropriated in this item, $7,227,000 is available for the purpose of off-setting General Fund costs of financial aid programs.

Staff Recommendation: Approve the proposed CSAC language

ITEMS TO BE HEARD

6440 UNIVERSITY OF CALIFORNIA
6600 HASTINGS COLLEGE OF THE LAW
6610 CALIFORNIA STATE UNIVERSITY

ISSUE 1: FUNDING PLANS

The issue for the Subcommittee to consider is the funding plans for UC, CSU and Hastings. Included in this are the Governor's proposal to increase state funding to the segments by 5 percent, with the funding tied to performance measurements and a tuition freeze; a potential enrollment target for UC and CSU; and legislative and Administration priorities for UC and CSU.

PANELISTS

- Department of Finance
- Legislative Analyst’s Office
- University of California
- California State University
- Hastings College of the Law

BACKGROUND

The Governor's January Budget proposed a "Multi-Year Stable Funding Plan" for UC, CSU and Hastings that would provide General Fund increases for each of the segments over the next four years (2013-14 through 2016-17). For 2013-14, the Governor provides 5 percent base increases of $125.1 million each for UC and CSU and $329,000 for Hastings. University funding would increase by an additional 5 percent in 2014-15 and 4 percent in each of the following two fiscal years.

These funding increases would only be provided if the segments' boards did not raise tuition during this period, and, for UC and CSU, enrollment levels were kept at least at current levels and specific outcomes targets are met. The Administration released a plan on outcomes in April that included seven performance measurements that were expected to increase annually by specific targets, and by a total of 10 percent during the four-year period. The measurements included improving four-year graduation rates; community college transfers; and the number of Pell Grant recipients completing degrees.

In the May Revise, however, the Governor withdrew this specific proposal, and the Administration hopes to work with the Legislature and the segments to determine if an agreement can be reached on the types of performance measurements that should be in this plan. Specific targets for each measurement would be developed later this year. The Governor's proposal on a tuition freeze remains in his proposal, although the Department of Finance has provided no specific language for the Subcommittee to consider.

In addition to the Governor's proposal for funding UC and CSU, the Subcommittee discussed at its April 24 hearing the issue of setting enrollment targets for UC and CSU, developing legislative priorities in the UC and CSU budgets, and the Governor's proposal to designate $10 million for each segment to use technology to increase students' access to classes. The Subcommittee voted to direct the Legislative Analyst to develop a potential enrollment target for the segments and voted to direct staff to create a set of legislative priorities for insertion into the UC and CSU budgets.

STAFF COMMENTS/QUESTIONS

UC, CSU and Hastings officials have outlined how they would spend the additional funding. Hastings notes that it has $455,000 in additional pension obligations, so all of the increase it will receive will likely go to cover those costs.

UC argues that all of the funding will be consumed by so-called "mandatory costs," while CSU suggests most of their funding is tied to the same thing. See the chart below:

Cost (in millions)	UC	CSU
Employer Retirement contributions	$77.2	(Funded elsewhere in the budget by General Fund)
Energy and other costs	$23.7	$5.2
Employee health benefits	$11.4	$36.2
Operation and maintenance of new space	0	$6.8
Employee salary increases	$30	$38
Technology Funding (Governor Earmark)	$10	$10
Enrollment Growth	0	$21.7 (6,000 students)
Student Success Program	0	$7.2
Total	**$152.3**	**$125.1**

LAO's analysis of these costs suggests employee salary increases should not be considered "mandatory" and UC's employer retirement obligation is $67.2 million, not $77.2 million. They suggest total mandatory costs for UC would be $102.3 million and CSU would $48.2 million.

Based on Subcommittee comments and concerns, the LAO's suggestions, and public input, staff recommends the following spending package for UC and CSU:

- ***Approve the 5% funding increases for UC, CSU and Hastings.*** Current state funding is nearly $1.2 billion less than in 2007-08, and given the passage of Proposition 30 and the improving economy, this re-investment in higher education makes sense. The Subcommittee may wish to require reporting language requiring UC and CSU to detail how this new funding is spent.
- ***Refer the performance measurement issue to the policy process.*** Determining specific measurements to measure UC and CSU's performance is a major undertaking and will become a significant focal point of both segments over the next several years, particularly if it is directly tied to funding. It should be done carefully. Issues to consider are whether the two segments – which have differing missions and student bodies – should have the same measurements; whether the measurements should be broad, such as four- or six-year graduation rates, or more specific, such as increasing degrees in certain fields, such as engineering; and what impacts measurements might have on the types of institutions students seek to enroll. Two current pieces of legislation, AB 1348, Perez, and SB 195, Liu, both would create processes to establish performance measurements. Legislation – not the budget – is the proper avenue to address this issue.
- ***Create an enrollment target that increases access to UC and CSU for 2013-14.*** With the passage of Proposition 30 and an improving economy, California students have a right to expect that access to the UC and CSU systems should improve. The LAO's analysis of UC and CSU costs, however, suggest that much of the increased funding provided to both segments will likely not be available for enrollment growth. However, the LAO notes that UC could fund an increase of 1,300 students, or .6 percent, and CSU could fund an increase of 10,260 students, or 3 percent. Thus a reasonable enrollment target could be set for UC at 212,799 students and for CSU at 352,260 students.
- ***Re-insert legislative priorities into the UC and CSU budgets.*** The Legislature has historically created budget bill language directing a small portion of the UC and CSU budgets to specific, statewide priorities. The Governor vetoed language requiring funding for most of these priorities out of the budget last year, and has included only one priority in his current budget proposal. The Subcommittee could consider re-inserting language into the Budget Bill allocating funds to the programs in the table below within the segments' baseline appropriation. Unless otherwise noted, funding programs would remain at the proposed 2012 Budget Act levels. Aside from the new item regarding UC Riverside Medical School, all programs would be funded within the baseline appropriation as described in the Governor's Budget. The Subcommittee will increase the UC appropriation by $15 million for the UC Riverside Medical School. Funding levels for all of these programs amount to less than 1 percent of UC's baseline and less than 4 percent of CSU's baseline:

Provision	Description	Cost
UC - Charles R. Drew Medical Program	The Charles R. Drew University of Medicine and Science (CDU), a private, nonprofit corporation with its own Board of Trustees, conducts educational and research programs in south central Los Angeles.	$8.3 Million
UC - AIDS Research	Since its founding in 1983 by the Legislature, the California HIV/AIDS Research Program (CHRP) has supported research that is attentive to the needs of California, accelerating progress towards prevention and treatment for HIV/AIDS.	$8.8 Million
UC - Subject Matter Projects	The California Subject Matter Project (CSMP) is a statewide network of subject-specific professional development programs for teachers. CSMP engages K-12 educators with faculty in various disciplines from UC to develop and deliver intensive institutes for education professionals.	$5 Million
UC - Cal Institutes for Science & Innovation	The state, UC, and hundreds of the state's businesses run the California Institutes for Science and Innovation, using state money and federal and private sources. The four Institutes, each jointly operated by multiple UC campuses, engage UC's world-class research faculty directly with California, national, and international companies in attacking large-scale issues critical to the state's economy and its citizens' quality of life.	$4.8 Million
UC - COSMOS	The California State Summer School for Mathematics and Science (COSMOS) provides an intensive academic experience for students who wish to learn advanced mathematics and science and prepare for careers in these areas.	$1.7 Million
UC and CSU - Science and Math Teacher Initiative	CalTeach encourages students majoring in science, technology, engineering, and mathematics (STEM) to augment their studies with a sequence of CalTeach courses and fieldwork in K-12 classrooms that ready them to pursue teaching credentials after receiving their baccalaureate degrees.	UC: $885,000 CSU: $2.7 Million
UC - PRIME	Programs In Medical Education (PRIME) are innovative training programs focused on meeting the health needs of California's underserved populations in both rural and urban areas by combining specialized coursework and clinical	$2 Million

	training experiences designed to prepare future clinician experts, leaders, and advocates for the communities they will serve.	
UC and CSU - Nursing Programs	To help meet the state's future nursing needs, both university systems have expanding nursing programs	UC: $1.7 Million CSU: $6.3 Million
UC – Personnel Costs	This would increase funding should the university reach a memorandum of understanding with Service Unit (SX)	$4.8 Million
UC – Student Academic Preparation and Education Programs	SAPEP works in partnership with K-12, the business sector, community organizations and other institutions of higher education to raise student achievement levels generally and to close achievement gaps between groups of students throughout the K-20 pipeline so that a higher proportion of California's young people, including those who are first generation, socioeconomically disadvantaged and English language learners, are prepared for postsecondary education, pursue graduate and professional school opportunities and/or achieve success in the workplace.	Language has typically tied the funding level for this program to the previous year's funding level.
UC – UC Riverside Medical School	This is a new item that would increase the UC baseline appropriation by $15 million to support the first four-year class of 50 medical students. Funding will support increasing faculty and support residencies in primary care and specialty areas most needed in the region. The appropriation should include reporting language similar to the 2011 Budget Act	$15 Million
UC – Pension Contribution	This would be the state's portion of addressing employer pension costs as identified by UC. Language noting that this funding does not constitute a future obligation similar to language in the 2012 Budget Act would be included.	$67.2 Million

- ***Amend the Administration's language requiring the technology funding to require legislative oversight and transparency, and stipulate that this funding cannot be expended unless legislative priorities are also funded.*** Both UC and CSU have provided general outlines of how they would use the $10 million allocated to them for technology. This proposal differs dramatically from typical state information technology projects, which receive scrutiny from the Department of Technology and require extensive documentation showing the need for the project, specific timelines and projected costs, and risks associated with the project. In addition, staff believes that new online courses and programs developed with these funds should be made available to the K-12 system for seniors interested in taking collegiate-level courses. The Subcommitee may wish to amend the language to ensure proper transparency, legislative oversight and to signal that the Governor's priority should not take precedence over legislative priorities. Proposed amended language is in bold:

"Of the funds appropriated in Schedule (1), $10,000,000 is provided to increase the number of courses available to undergraduate students enrolled at the University of California (UC) through the use of technology, specifically those courses that have the highest demand, fill quickly, and are prerequisites for many different degrees. **These funds shall not be expended unless provisions (x), (y) and (z) also are funded.** Priority will be given to developing courses that can serve greater numbers of students while providing equal or better learning experiences. The university shall ensure that the selected courses are articulated with courses meeting degree requirements at each UC campus offering undergraduate programs. The university will use these funds to enable make these courses to be available to all university undergraduate students systemwide, regardless of the campus where they are enrolled, **and to K-12 systems to allow high-school students to take these classes if possible.** The university shall charge UC-matriculated students the same tuition for these courses that it charges them for regular academic year state-subsidized courses. **Prior to the expenditure of these funds, the University shall submit a detailed expenditure plan for approval by the Department of Finance. The Director of Finance shall provide notification in writing of any approval granted under this section, not less than 30 days prior to the effective date of that approval, to the chairperson of the Joint Legislative Budget Committee, or not later than whatever lesser amount of time prior to that effective date the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine. By March 1, 2014, the University shall submit a report detailing the use of these funds and any outcomes that may be attributed to their use. The report shall include the university's proposal for use of these funds in 2014-15.**

Staff Recommendation: Approve Funding Plans for UC, Hastings and CSU that:

1. Provide the proposed state funding increases to UC, Hastings and CSU;

2. Defer the development of performance measurements to the policy process;

3. Create an enrollment target that sets enrollment at 212,799 students for UC and 352,260 for CSU;

4. Inserts legislative priorities into the budget bill

5. Amends the proposed language regarding $10 million in technology funding

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

ISSUE 1: MIDDLE CLASS SCHOLARSHIP

The Subcommittee can act on a proposal by Assembly Speaker John A. Perez to provide automatic scholarships to families earning less than $150,000 annually, funded by proceeds from Proposition 39.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- University of California
- California State University

BACKGROUND

Since the 2003-04 school year, CSU fees have increased 191% – from $2,046 to $5,970, and UC fees have increased by 145% – from $4,984 to $12,192. While state and federal financial aid programs have mitigated the impact of the fee increases on lower income and needy students, middle-income students have not had the same protection.

For example, data published by the UC system notes that between 2000-01 and 2010-11, the average increase in inflation-adjusted net cost for UC students raised most sharply for student with families whose incomes were in the $100,000 to $150,000 range.

The Middle Class Scholarship would allow students with family incomes less than $150,000 that do not already have fees covered by existing financial aid programs to receive a grant worth 40 percent of annual fees at UC or CSU. Students also must be California residents and fill out a federal Free Application for Federal Student Aid (FAFSA) or similar application. Students with families earning between $150,000 and $160,000 can also receive a discount, although at a lesser amount.

For the CSU, it is estimated that approximately 150,000 students could receive the Middle Class Scholarship and save $2,016 per year. For the UC, it is estimated approximately 36,000 students could receive the Middle Class Scholarship and save up to $4,500 per year.

This program will be funded by Proposition 39, the voter-approved initiative which is generating revenue from a shift in corporate tax revenues. While half of Proposition 39 revenues are required to be used for Proposition 98, the other half are deposited in the General Fund. Trailer bill language would send the non-Proposition 98 funds from Proposition 39 into the newly created Middle Class Scholarship Fund.

According to data provided by UC, and CSU, estimated cost of the Middle Class Scholarship in 2013-14 would be $459 million for the full year or $229.5 million if the program began in the Spring 2014 semester. The plan is to implement the program for the Spring semester.

Proposition 39's non-schools revenue in 20-13-14 is expected to be about $470 million.

Proposed trailer bill language would require the California Student Aid Commission to develop rules and regulations needed to carry out the program. The language notes that if funding is not sufficient enough in a given year to cover 40-percent grants for all qualifying students, the percentage of individual grants would be lowered.

STAFF COMMENTS

Because the neediest students have largely been protected from recent tuition increases through existing financial aid programs, these fee increases have essentially become a massive middle class tax increase.

Many middle-income families turn to increased use of student loans to cover the fee hikes.

With the passage of Proposition 39, a stable funding source is now available to support this program. The trailer bill language protects expenditure spikes by limiting grants to 40-percent of tuition, or a lesser amount if funding is reduced or more students qualify for the program. Staff notes that the $229.5 million cost is based on UC and CSU assumptions that 100 percent of students with family incomes that qualify for the program would utilize the funding. That is likely not a realistic scenario: both segments report that only about 71 percent of their students fill out a FAFSA, for example.

Staff Recommendation: Approve budget bill and trailer bill language creating the Middle Class Scholarship

ISSUE 2: FUNDING CAPITAL OUTLAY

The Subcommittee can consider authorizing lease-revenue bonds for the top priority capital projects for UC and CSU.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- University of California
- California State University

BACKGROUND

At its April 24, 2013 hearing, the Subcommittee rejected the administration's proposal to combine the UC and CSU capital budgets with their main appropriation and allow them to restructure lease-revenue debt structure.

The Administration has not offered another proposal to address the two segments' capital needs. In the absence of a new proposal from the Administration, the Subcommittee may wish to consider authorizing top-priority projects for both segments. All have identified significant unmet capital outlay needs both in the long-term and for 2013-14. For 2013-14, both the UC and CSU governing boards adopted extensive state-funded capital outlay programs, with 39 projects totaling $788.5 million and 38 projects totaling $520 million, respectively. Hastings has identified long-term needs of $24 million, of which $22 million is designated as high priority. Both UC and CSU also have extensive deferred maintenance needs; UC reports $1.1 billion in need, of which $426 million is designated high priority, and CSU reports $1.7 billion in need, of which $462.9 million is designated high priority.

Below is a description of the top-priority project for UC and CSU:

- ***UC Merced Classroom and Academic Office Building***. This project would provide classroom, academic support, research and office space. The project would construct a 77,275-square-foot building, adding five instructional classrooms that would accommodate 90 to 210 students to provide large spaces needed for general education requirements. Funding for preliminary plans and working drawings were appropriated in the 2012 Budget Act. The project could be completed by the end of 2015. The cost is estimated to be $45.1 million. Should the Legislature authorize lease-revenue bonds for this project, debt service costs would be $3.2 million annually.

- ***CSU Pomona Administration Replacement Facility***. This project would address seismic and structural issues at the four-building Classrooms, Laboratories and Administration (CLA) complex. The proposal would demolish and replace two buildings and seismically strengthen two buildings. The buildings all have high-level seismic hazard ratings and other serious structural issues. The cost is estimated to be $76.5 million. Should the Legislature authorize lease-revenue bonds for this project, debt service costs would be $5.4 million annually. However, it should be noted that CSU has received $12.4 million in settlement funds from lawsuits related to construction issues. This funding could be used for this project.

STAFF COMMENTS

The LAO does raise some concerns with both proposals. At UC Merced, the LAO notes that UC has numerous other fire/life/safety projects that could be a higher priority to the Legislature and that enrollment growth could be absorbed at other campuses. Regarding CSU Pomona, the LAO notes that the proposal would increase square footage by 20 percent, and that it is unclear how $13 million the university received from a settlement over construction deficiencies related to the existing buildings.

UC officials note that the new building at Merced is key to allowing the new campus to increase enrollment, which would help fulfill a goal of growing the student body there, also helping with economies of scale in other campus costs.

CSU officials state that the current CLA buildings are a safety risk, and the project would create a one-stop service center for student services, among other things.

Staff notes that the Administration has still not released the expected 2013 Five-Year Infrastructure Plan this year, which will outline infrastructure priorities for major state programs, including K-12 education, high-speed rail, and higher education. The Governor's Budget Summary noted that the plan will examine the state's overall needs and may make suggestions on alternative methods of financing future capital investment.

Absent that plan, it is difficult to have an over-arching discussion of state infrastructure needs. In the absence of that discussion, however, both segments have key capital needs that are being unmet. Both projects appear worthy of consideration and would not add costs for 2013-14.

Staff Recommendation: Approve lease-revenue bond authority for the top-priority projects for UC and CSU

6610 CALIFORNIA STATE UNIVERSITY

ISSUE 1: EMPLOYER PENSION CONTRIBUTIONS

The Subcommittee can act on the Governor's proposal to freeze the state's contribution to CSU pension costs based on the system's 2012-13 payroll.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California State University

BACKGROUND

This issue was discussed but held open at the Subcommittee's April 24, 2013 hearing.

Under state law, CSU is required to participate in the California Public Employees' Retirement System (CalPERS). The university system's annual contribution to CalPERS is determined by multiplying its payroll costs by its employer contribution rate. In 2012-13, for example, CSU had an estimated $2.2 billion in payroll subject to CalPERS, an employer contribution rate of 21 percent (for most of its payroll), and a resulting CalPERS contribution of $463 million. Each year, the state adjusts CSU's budget (as it does for other state departments) to account for changes in retirement costs due to changes in payroll and employer rates. The Governor's Budget provides a $51.4 million General Fund increase for CSU to account for increases in CSU's required employer pension contribution.

Governor's Budget Proposal. Starting in 2013-14, the Governor proposes that future adjustments to CSU's budget for retirement costs be based permanently on 2012-13 payroll costs. According to the administration, this would require CSU to consider full compensation costs for any decision to increase its payroll.

STAFF COMMENTS

The LAO supports the Governor's proposal and suggests it would provide an incentive for the university to consider retirement costs in its hiring decisions. However, CSU must already carefully weigh all hiring and benefits decisions, as it does bear the brunt of salary and other costs when it hires new staff or increases benefits.

Both the CSU administration and faculty association are concerned about the use of the 2012-13 payroll as a baseline. According to CSU data, the system had 47,124 employees in the 2007-08 year, but 44,364 employees in 2012-13. The system has lost nearly 3,000 employees due largely to budget cuts, and CSU officials argue the 2012-13 employee numbers are artificially low.

This proposal comes at a time when CSU has routinely been turning away more than 20,000 eligible students each year due to constraints on system. CSU has recently reported that it has received 331,143 applications for Fall 2013, an all-time record and 7.6 percent higher than the prior fall.

This proposal could potentially constrain growth just as more students are seeking entrance to the system. Setting an artificially low baseline could hinder student access to CSU, which is a detriment to students and the state.

Staff Recommendation: Reject the proposal

6980 CALIFORNIA STUDENT AID COMMISSION

ISSUE 1: CAL GRANT PROGRAM REFORMS

The Subcommittee may consider taking actions to improve the Cal Grant program for students and institutions by eliminating recent budget actions that impacted the poorest students, imposed new standards that can strip students of their Cal Grant despite financial need, and will cut Cal Grant amounts for higher education segments that provide needed opportunity for low-income California students.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California Student Aid Commission

BACKGROUND

At its March 13, 2013 hearing, the Subcommittee examined the impacts of several recent budget actions on the Cal Grant Program. Among the actions are:

- ***Imposition of an annual Income/Asset Test.*** Previously, Cal Grant recipients only had to meet certain eligibility criteria when they first applied for a Cal Grant (and not when they renewed the grant in subsequent years), although they did need to prove financial need annually. Changes enacted in the 2011 budget now require Cal Grant recipients applying for renewals to meet income and asset requirements that previously were only required when they first applied. For example, a renewal applicant's family income and assets must fall below specified levels, as shown below, for 2013-14. Should a students' income or asset situation change during the course of their college attendance, they can lose their Cal Grant, even if they still meet the annual financial need requirements.

- ***Awards Reductions for Accredited Non-Profit and For-Profit Private Institutions.*** The 2012 budget reduced Cal Grant awards 2 percent for new recipients at non-profit colleges and universities as well as for–profit institutions accredited by the Western Association of Schools and Colleges (WASC) in 2013-14. The reduced amounts will grow in 2014–15, when new awards at non-profit and WASC–accredited for–profit institutions are reduced by an additional 11 percent.

- ***2012 Vetoes Made Further Reductions.*** Using his veto authority, the Governor in the 2012 Budget Act reduced new and renewal Cal Grant awards by 5 percent from their 2011–12 levels. The reduction applied to the maximum Cal Grant A and B tuition and fee award for students at private institutions. In addition, it applied to the

Cal Grant B access award (a stipend for books and supplies), the Cal Grant C tuition and fee award, and the Cal Grant C book and supply award for students at UC,CSU and community colleges. The Governor assumes these new amounts in his 2013-14 budget proposal.

- **Cohort Default Rates and Cal Grant eligibility.** Changes enacted in both the 2011 and 2012 budgets remove some higher education institutions from eligibility to participate in Cal Grant programs. The 2011 budget disqualified institutions from the Cal Grant program if 24.6 percent or more of their former students defaulted on federal student loans within three years of loan repayment, as defined and calculated by the federal government. This impacted about 76 institutions, mostly private career and technical schools. The change allowed students at ineligible institutions to obtain renewal awards, but at only 80 percent of the original award amount. The 2012 budget tightened the default rate limit and added a graduation rate requirement as well. Specifically, a school must have a three–year cohort default rate below 15.5 percent and a graduation rate above 30 percent to remain eligible for Cal Grants. There are 157 ineligible schools for the 2012-13 year based on these changes. These requirements do not apply to institutions with fewer than 40 percent of undergraduates borrowing federal student loans, and institutions with a default rate below 10 percent and a graduation rate above 20 percent are exempt from the graduation requirement until 2016–17.In all, these actions impacted more than 200,000 Cal Grant recipients.

STAFF COMMENTS/QUESTIONS

The Subcommittee's examination of these changes led to the following conclusions:

- ***The annual income/asset test creates uncertainty for both students and schools.*** Nearly 20,000 students have now received a Cal Grant in one year and then lost eligibility for Cal Grant in a subsequent year due to changes in their income or assets, even though they still demonstrated financial need. Losing financial aid that can be worth more than $13,000 in the middle of a student's college attendance could have devastating impacts. A key selling point to students and their families in the past regarding the benefits of the Cal Grant was that once you received it, you were guaranteed to continue receiving it for four years as long as you had financial need, thus allowing students and families to plan accordingly. This is no longer true. In addition, financial aid officials with both private and public schools noted that this uncertainty for some of their students impacts their ability to plan as well. Testimony at the March 13 hearing showed that this change could lead some institutions to accept fewer Cal Grant students or impose higher costs on all students receiving financial aid.

- ***The 2012 vetoes impacted the most-needy students at public and private institutions, while sparing the least-needy.*** The Governor's 5-percent cuts to Cal Grant B and C students at all public and private institutions and 5-percent cut to Cal Grant A students at private institutions impacted the Cal Grant students with the lowest incomes, as the following chart indicates:

Students Impacted by Veto

Segment	Number of Students	Average Income
CCC	69,250	$15,280
UC	12,545	$16,728
CSU	59,698	$17,586
Independent Colleges and Universities	24,571	$32,782
Private Career Colleges	7,166	$20,598

Students Not Impacted by Veto

Segment	Number of Students	Average Income
UC	47,437	$35,231
CSU	22,601	$52,234

It should be noted that the veto came after the Legislature negotiated other cuts to the Cal Grant Program in good faith. The veto, in effect, broke an agreement between the Administration and the Legislature.

- ***Cuts to independent non-profit and accredited for-profit institutions come despite the fact that these colleges provide good value for the state.*** The state provides General Funds to public higher education institutions that support teaching costs for every student but does not provide similar funding to private institutions. Thus, Cal Grant recipients who choose to attend an independent non-profit institution school are less costly for state taxpayers than other students. According to estimates provided by the LAO, the 2012-13 average state subsidy for UC Cal Grant students is $24,151 per student, while the average state subsidy for a CSU Cal Grant student is $12,636. The average state subsidy for a Cal Grant student at an independent non-profit college or university is $8,800.

The Subcommittee should consider changing some of these actions to strengthen the Cal Grant Program for both students and schools. Staff recommends eliminating the annual income/asset test, undoing the 5-percent veto on Cal Grant B and C awards at all institutions, and repealing the upcoming 2-percent cut to Cal Grant awards at nonprofit and accredited for-profit schools in 2013-14, and the 11-percent cut in 2014-15.

According to information provided by the California Student Aid Commission, these changes would add $54.6 million in General Fund costs. Eliminating the annual income/asset test, while continuing to require annual evidence of financial need, will add $41.6 million in 20131-4 costs. Undoing the veto amounts to Cal Grant B and C awards will add $11.9 million costs, and repealing the upcoming 2-percent cut to nonprofit and accredited for-profit schools will add $1.2 million in costs.

In addition, the Subcommittee could consider a change to the cohort default rate and graduation rates that would create an exemption for schools with very high graduation rates but miss the cohort default rate. The change would allow institutions to remain eligible for Cal Grants if their cohort default rate is below 20 percent but their 6-year graduation rate is at least 80 percent. The change could sunset after the 2016-17 academic year, similar to another exemption in statute. According to data provided by the California Student Aid Commission, this could add about $4.5 million in Cal Grant costs in 2013-14.

Staff Recommendation: Eliminate the annual income/asset test, undo the 5-percent veto to Cal Grant B and C awards, repeal upcoming 2- and 11-percent cuts to Cal Grant awards for students at nonprofit and accredited for-profit schools, and create an exemption to the cohort default and graduation rate standards to continue eligibility for schools with slightly lower default rates but much higher graduation rates.